



**Business Partnerships: The Good, The Bad And The Ugly**

Mick Kling, OD and Ali Oromchian, JD, LLM

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Disclosures



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**What is a Partnership?**

**IRS Definition**

"A partnership is the relationship between two or more people to do trade or business. Each person contributes money, property, labor or skill, and shares in the profits and losses of the business."

"Two or more individuals sharing ownership and responsibilities for running a business."

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**Advantages of Partnerships**

1. Shared roles, responsibilities and ideas
2. Often increases performance, efficiency and value
3. Synergy
4. Potential tax advantages
5. May be easier to qualify for loans

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**Disadvantages of Partnerships**

1. Differing business philosophies
2. Different personalities (and money personalities)
3. Increased risk of conflict
4. Challenges when exiting business

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**Finding The Right Partner**

- Money personality differences
- Flexible and cooperative personality types
- Mutual respect and trust
- Shared goals and core values
- Open communication
- Be willing to compromise

Defining roles:

- Financial Matters
- Staff Leadership and Culture
- Operational Matters

Friends often don't make the best partners




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**Review of Business Entities**

Sole Proprietor	Partnership
LLC	Corporation

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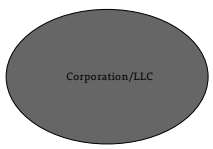
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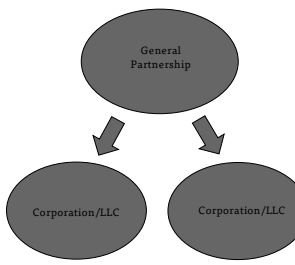
**Forming A Partnership**

Traditional Method



Single corporate entity with shareholders

Modern Method



General Partnership with S-Corps owned by each partner

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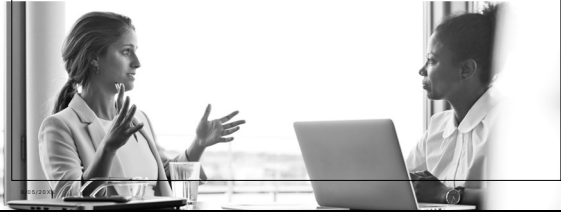
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**The Partnership Agreement**

- 1.Outlines the business relationship
- 2.Defines how profits will be distributed
- 3.Defines how a partner will exit
- 4.Defines what happens if a partner dies or becomes incapacitated



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**How are Partners taxed?**

- 1.How profit and loss is treated
- 2.Reporting income for tax purposes
- 3.Benefits of S-Corp filing status



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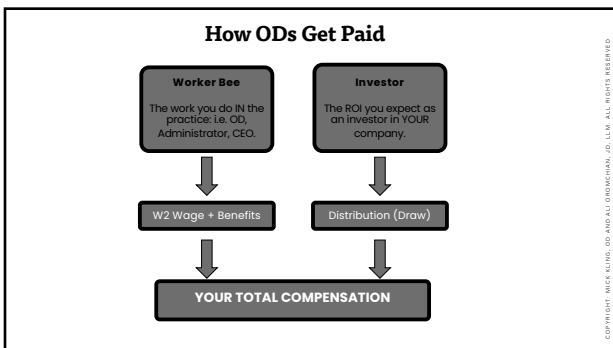
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**How Partners Get Paid**

1. Determining fair market compensation (W-2 wages)
2. Profit Distribution
3. Ensuring Fairness



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**Practice Transitions**

**Buying into a partnership**  
Tax implications of an asset purchase versus stock sale

**Financing the deal**  
Bank loan vs. Owner financing

**Selling a portion of your practice**  
All at once vs. over time  
Practice Value over time



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**5-Year Partnership Pathway**



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**Unwinding a Partnership**

**Dissolving the Partnership**

- 1.Steps involved in terminating the partnership
- 2.Compliance with legal and contractual obligations

**Division of Assets and Liabilities**

- 1.Distribution of assets and settlement of liabilities
- 2.Provisions in the partnership agreement for dissolution process



16

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**Avoiding Common Partnership Pitfalls**

- Personality conflicts and money problems
- Cultural differences
- Leadership style differences - personality testing
- Workload/operating responsibilities
- 50/50 vs 49/51
- 10% owners can act like dictators
- Differing personal lifestyles can mean different needs of the business
- Partnership screening questions



17

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**FAQs**

What has been the most successful way to split gross revenue between two partners?

What is a reasonable base salary for both partners, especially during vacation or short-term disability situations like maternity leave?

What is the recommended % to reinvest in the practice of gross collections?



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**FAQs**

How are owner draws (distributions) taxed?

How do you compensate a partner that carries most of the administrative/managerial duties?

If I'm buying in a % of the practice, how do I make sure the Seller will sell the rest of the practice?

How do partners decide a fair wage for the clinical care they provide in the practice? Salary vs. Productivity-based?

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**Thank You**

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